



The Community's finances — New arrangements

■ by Peter Schmidhuber, Member of the European Commission

In December 1990 the Member States agreed to convene two intergovernmental conferences to lay the foundations for the harmonious development of the Community and for closer convergence in non-economic sectors too. The Intergovernmental Conference on Political Union, which is mainly concerned with the development of the European Economic Community, has two objectives in particular: enhancing the democratic nature and increasing the effectiveness of the Community institutions. Both these objectives also apply directly to the arrangements governing the Community's finances. The right to approve the budget and determine the level of revenue and expenditure is the most important right of any parliament. No democracy can exist without clear rules for establishing and implementing its budget and without a firm basis for financing expenditure.

Like the Community itself, the finance system has developed since the original Treaties were drafted. As a result of this development the Community has, in recent years, been spared the budgetary crises which used to beset it. However, the changes have not been enshrined in the Treaties. The Intergovernmental Conference on Political Union now offers the opportunity to make amends and write the new arrangements into the Treaty.

Democratic endorsement and parliamentary control of State bodies and their decisions are the cornerstones of a modern free society. While it is true that the European Parliament has, in general, come to play a far bigger role, especially since the first direct elections in 1979, it has so far had no decisive say in determining Community revenue and only limited influence over expenditure, even though its position in budget matters has traditionally been stronger than in other policy sectors. The Commission has therefore submitted proposals to the Intergovernmental Conference on Political Union to modernize the Community's finance system:

(i) Parliament should have some say in determining Community revenue. However, this should not go so far as a right of veto, as this would hardly be acceptable to the Member States. The importance of having a share in decision-making becomes greater as real 'own resources' gradually oust Member States' financial contributions as the source of the Community's finances. Provision should also be made for the Member States, acting unanimously, to introduce 'Community tax' some time in the future.

(ii) Medium-term financial planning and strict budgetary discipline were adopted for a limited period as part of the Delors Package in 1988. These instruments have proved highly successful in practice and should therefore become a permanent feature of the finance system. This is the only way of ensuring that we will continue to be spared annual budget disputes in future. However, when the detailed rules are laid down — all being well, in 1992 — some points will need to be clarified and greater flexibility introduced to allow quick reactions to new challenges.

(iii) If strict budgetary discipline based on medium-term financial planning is made a fixture of the finance system, Parliament could be given the final say on the annual budget. For national parliaments this is a matter of course. Member States would then no longer need to fear that Parliament might take arbitrary decisions that exceed the own resources available or omit to finance unpopular items of expenditure. At the same time the budgetary procedure could be shortened and simplified.

The new finance system proposed would produce a new balance between the three Community institutions — the Council (Member States), Parliament and the Commission. This new balance would hinge on the medium-term financial planning, for which it is intended that all three institutions should have a share in the decision-making. While the Council is dominant at the first stage when the decision is taken on own resources, Parliament is given the more powerful role in the subsequent stage — the annual budgetary procedure. The proposed reforms affect only *procedures* at these three levels. *Decisions of substance* — e.g. about whether to introduce a Community tax or the amount of resources to be allocated to the Community — are not on the political agenda at present.

DECISIONS

■ The Twelve against 'dirty' money

Drug traffickers, terrorists and the heads of organized crime will no longer be able to use the border-free European financial area to launder their ill-gotten gains easily. According to a Directive ('European law') adopted by the EC Council of Ministers on 10 June, banks and other financial institutions, including life-insurance companies, will have to ask customers to identify themselves who try and deposit sums above ECU 15 000 (ECU 1 = UK £ 0.70 or IR £ 0.77) either anonymously or use an identity which appears suspect. Under the Directive, the organizations in question must collaborate with police departments engaged in the fight against money laundering. The Directive will come into force on 1 January 1993, at the same time as the remaining pieces of European legislation needed to complete the European financial area. The Twelve also undertook to introduce national legislation on that date, imposing penalties.

■ Cross-border natural gas

It will be easier to transport natural gas from one European Community country to another after 1 January 1992, which is a year in advance of the date set for the completion of the single market. The EC Council of Ministers adopted a Directive ('European law') on 31 May which rounds off the liberalization decided on 29 October 1990 in the case of electricity. The new gas Directive is along the same lines as the electricity Directive, in force since 1 July (see *Target '92*, No 10/1990). As a result, the bodies responsible for the large national networks for the transport of natural gas will have to inform the European Commission of all orders received by them for the transport of gas over their territory. At the end of a year, if no such contract has been concluded, the bodies interested can inform the Commission of the reasons for it. The latter will then set up a conciliatory body, to be presided by it. The terms imposed by the national bodies for the transport of gas will have to be non-discriminatory and free of all unjustifiable restrictions.

■ European cordless telephones for 1992

During the course of 1992 it will be possible to telephone and transmit data electronically, from one end of the European Community to the other, using cordless telecommunications equipment, including telephones. What is more, thanks to the telepoint services available in public places, you will be able to communicate by computer with your colleagues, customers or individuals throughout the Community. The EC Council of Ministers adopted on 3 June two texts which will make this possible. One is a Directive ('European law'), which will make available common frequencies for cordless communication. The other is a recommendation which, while it does not have force of law, calls on EC governments, telecommunications administrations and industry to adopt a European telecommunications standard as from 1992. The European Telecommunications Standards Institute (ETSI) is working on this standard, which should be ready by the end of this year.

■ No 'low blows' in the air

Airlines flying the European Community's skies will not be able to take advantage of the single market to eliminate their competitors through unfair competition with impunity. Since 18 May the European Commission has the power to put a rapid end to such practices, when it has proof that they are contrary to Community competition rules and can put at risk the very existence of an airline. The EC Council of Ministers strengthened the Commission's means of action in this field on 14 May by adopting a regulation ('European law'), under which the latter can take provisional measures applicable for a maximum period of nine months. The Commission and Council want to prevent airlines from taking advantage of the liberalization of air transport, which was decided on in 1987 and 1990, to first capture the market and then raise

prices, as happened in the United States in the 1980s. The price war and spectacular promotional campaigns that followed the ending of the Gulf War have revived their concern. The new Regulation could be invoked against the introduction of fares which are well below operating costs, the grant of special advantages to regular customers or a sharp increase in the number of flights on a given route.

INITIATIVES

● Comparative advertising in 1993?

Comparative advertising — claims by manufacturers that one washing powder 'washes whiter' than another, or that car A uses less petrol than car B — is at present legal in five European Community countries: the United Kingdom, Denmark, Ireland, Portugal and Spain, and should shortly become so in France. The European Commission proposed to the Twelve on 22 May to authorize comparative advertising throughout the Community from the beginning of 1993, through changes to the 'European law' on misleading advertising. The new 'law' would allow advertisers to make comparisons, provided they confined themselves to objective elements of the goods offered for sale and furnished clear proof. It would ban advertising which was misleading or likely to create confusion between brands.

● The transborder payments jungle

Making a payment to someone living in another European Community country is an expensive business, regardless of whether payment is made in cash, international cards, Eurocheques, travellers' cheques or girocheques. What is more, it is very difficult to choose the best exchange rate for the purpose, given that banks and other financial bodies do not provide all the information the customer needs. These are the main findings of a report drawn up by the Brussels-based European Consumers' Organization (ECO) for the European Commission and published on 6 June. The ECO wants exchange rates to be displayed, inclusive of the bank's commissions. It also wants the contracts signed by holders of international cards (VISA, Eurocard/Mastercard, American Express, Diners Club) to indicate the criteria used in calculating exchange rates and commissions. The European Commissioner responsible for consumer protection, Karel Van Miert, has asked a committee of specialists to put forward concrete solutions — pending the arrival of a European currency.

1992: FROM DECISION TO MANAGEMENT

Nearly 70 % of the proposals for the 'European laws' needed to complete the single market had been adopted by 31 May: 193 out of 282, to be exact, according to the European Commission's sixth report on the implementation of the 1992 programme, adopted on 11 June. For the Commission, this 'positive' result is due to the pressure which the European Community's Heads of State or Government have maintained on their ministers and their departments. However, problem sectors remain, such as taxation, the free movement of persons, transport and company law. In addition, the European Directives ('laws') are not being transposed into national law with the same speed in all the Member States, even if some of them, France and Greece in particular, have done much better this year. The Community average was more than 72 %, up to 31 May, as compared to 67 % last December. Denmark still leads its EC partners, with some 90 % of Directives transposed into national law. It was followed by France (85 %); the United Kingdom, Portugal and Germany (all three about 80 %) and Belgium (about 75 %). Greece, the Netherlands and Spain came next (more than 70 %), then Luxembourg, with a shade less; Ireland (more than 60 %) and, bringing up the rear, Italy (less than 45 %). With just 18 months to go to the completion of the single market, the European Commission's role is not so much one of proposing draft legislation as of seeing to it that legislation already adopted is written into the national laws of the Member States, that national administrations develop a European outlook and that they cooperate with each other and with the Commission.

● A European majority for a European union

Had a referendum on European union been held in the 12 European Community countries between 22 and 29 May, there would have been a majority in favour of it in every EC country except Britain and Denmark. This is the main finding of a Community-wide Eurobarometer flash poll (No 5), whose results were published early in June. In the Community as a whole, 63 % of those polled were in favour of monetary union and a single currency; 59 % wanted political union, with a common foreign policy; 73 % common defence and 63 % greater powers for the European Parliament. Denmark was the only country in which those polled rejected all four forms of union. In Britain, 67 % supported common defence but were opposed to everything else. In the other 10 countries, there was a majority in favour of all four elements of union. Political and monetary union, the subjects of two of the questions, are being dealt with by the 12 Member States in two intergovernmental conferences, launched last December. They should lead to a reform of the Rome Treaty, the European 'constitution'.

● European statistics for 'green laws'

The numerous ecological standards contained in the European Community's single market legislation require, as regards both drafting and implementation, a solid scientific basis as well as strictly comparable statistics for all 12 EC countries. Between 1985 and 1990 European experts have perfected a system of collecting and handling statistics which allows all kinds of environmental information — soil erosion, air pollution and sulphur emissions, for example — to be displayed in the form not only of lists but also illustrated geographical maps. This system, baptized Corine, is being used for the last two years by the European Commission, national and regional authorities in the various EC countries and researchers. It was the object of close scrutiny by a group of European experts, who met in Luxembourg from 28 to 30 May at a seminar organized by the European Commission. Corine is expected to be one of the show-pieces of the European Environment Agency, which exists only on paper at present, because of the inability of the Twelve to agree on its location.

○ BRIEFLY

Thirty-two per cent of the amendments made by the **European Parliament** to the 1992 legislation have been accepted by the EC Council of Ministers and European Commission, and incorporated into the final texts of the laws in question. In a resolution adopted on 16 May the European Parliament is pressing for a greater power of co-decision in the adoption of Community legislation.

The European Commission proposed to the Twelve on 15 May a total ban on all **tobacco advertising**, except at tobacconists and other points of sale. Portugal and Italy have already banned all forms of tobacco advertising. The Commission wants the harmonization, made necessary by the single market, to be guided by the need to protect public health.

Luxembourg's Consumers' Union has opened an information and advisory centre in the capital, Luxembourg, with the European Commission's help. It was inaugurated on 30 May. The centre will provide information on transborder purchases, the relevant laws and the steps to take in the event of disputes, to consumers from both Luxembourg and the neighbouring areas of Belgium, France and Germany. The new centre is one of the first links in a network which will cover all areas lying alongside the Community's internal borders.

The report **'One money, one market'** is now available from bookshops. The report, which sets out the advantages of a European currency, was published by the European Commission last October for use by professionals. It has now been rewritten for a wider public by Michael Emerson, who was Director of the Commission department of economic assessment at the time, and the British journalist Christopher Huhne, under the

title *The ECU Report*, published by Pan Books. The book is available not only in English but also French, German and Danish.

Sir Leon Brittan, the European Commissioner for competition and financial services, asked the national banking associations in all 12 European Community countries on 5 June for information on the **setting of interest rates**. He wants to find out if banks have an understanding to keep interest rates at artificially high levels, as such a practice would be contrary to the Community's competition rules.

The **Chamber of Commerce of Tours and Indre-et-Loire** (in France) set up its own office in Brussels in May. Baptized 'Axeurope', the office will promote the region and act as an 'embassy' to the European institutions for its businesses and district councils.

SEEN FROM ABROAD

► Stockholm and Helsinki linked to the ecu

The Swedish and Finnish currencies have been pegged to the ecu, the European Community's monetary unit. The Swedish Government decided on 17 May that the krona (KR) will have a narrow fluctuation margin of 1.5 % around a central rate of KR 740054 to the ecu from 20 May. In Helsinki, the government proposed to Parliament on 3 June that the Finnish markka be pegged to the ecu, but with a 3 % margin of fluctuation. These two Nordic currencies were preceded by the Norwegian krone, which has been linked to the ecu since last October. The Austrian schilling is tied in practice to the German mark, the strongest of the currencies which make up the ecu.

► Tokyo for an open market ... in Europe

In an interview published on 2 June in the Spanish newspaper *El Pais*, Japan's prime minister, Toshiki Kaifu, hoped that the changes brought about by the single market will lead to 'the liberalization of the highly protected European economy and the development of the word economy ... For this to come about it is essential that the market [European] be open to the outside'. Mr Kaifu also held that all barriers to the import of foreign cars [Editor: in practice, Japanese cars] should be removed in the run-up to the single market. The European Community, it may be added, has a massive and chronic trade deficit with Japan, which last year stood at ECU 23.5 billion. (See Key figures in *Target '92*, No 6/1991.)

▷ BRIEFLY

The Austrian Chancellor, Franz Vranitzky, declared in Munich on 4 June that Austria would have experienced some 60 % of the anticipated effect of the single market even before joining the European Community, thanks to the agreements between the EC and EFTA (whose other members are Switzerland and the Nordic countries). Austria applied for membership in 1989.

Fifty-four per cent of **Swiss voters** rejected a government proposal to introduce VAT in a referendum held on 2 June. The Swiss press saw the result as a sign of distrust of the European Community, VAT being considered a typically 'Community' form of taxation.

Norway is in no hurry to seek membership of the EEC, the country's prime minister, Mrs Gro Harlem Brundtland, declared in Copenhagen on 16 May. 'The country's membership application will be debated during the Labour Party conference in 1992', she added.

◆ BC-NET now includes former East Germany

The 'Treuhandaanstalt', the body entrusted with the task of privatizing businesses in the five new German *Länder*, is now part of the European network of interbusiness cooperation, BC-NET. Its President, Birgit Breuel, signed a convention of adhesion with the European Commission President, Jacques Delors, in Berlin on 6 June.

The Treuhandaanstalt's adhesion to BC-NET is particularly important in the context of German unification. It will make it possible to diffuse offers of cooperation from thousands of firms established in the five new *Länder* through a far-reaching computerized network.

BC-NET, which has been in operation since 1988, is a network of business consultants which covers all 12 European Community countries and is open to the EFTA countries (Austria, Switzerland and the Nordic countries), Poland, Brazil and Tunisia. Through BC-NET it is possible to identify, quickly and confidentially, potential partners among small and medium-sized enterprises (SMEs) located in other EC countries or in other regions, in response to a specific offer of, or request for, cooperation.

BC-NET operates on the basis of a specific nomenclature (coded information). It has already handled more than 34 000 cooperation offers and requests, covering all sectors of both the manufacturing and service industries and all forms of cooperation — commercial, technical and financial.

The network is currently expanding rapidly, the number of business consultants having increased from 460 to roughly 600 in May.

◆ Europartenariat comes to Leipzig this December

Europartenariat is an initiative of the European Commission, designed to stimulate cooperation between businesses located in regions which have either fallen behind, or are in decline, and in the other regions of the 12-nation European Community.

After a Europartenariat action in Portugal — at Oporto, on 17 and 18 June — the European Commission has decided to launch a second such action this year, this time in former East Germany, where some 350 enterprises have already been chosen. Their offers of cooperation will be published in a catalogue, available at the end of August. Meetings between the heads of interested enterprises will take place at Leipzig on 2 and 3 December.

In view of Germany's new configuration, the aim of Europartenariat-Leipzig is to encourage meetings between companies located not only in the European Community but also in Central and Eastern Europe.

The organization and realization of this event has been entrusted to I.H.K. — Gesellschaft zur Förderung der Außenwirtschaft und der Unternehmensführung (Company for the promotion of foreign trade and company management) in Berlin, at 10-11 Schönhalzerstraße, D-O-1100 Berlin. Telephone: 373/48.22-117.

◆ The Euro-Info-Centres in 1990

Last year the European network of information centres for businesses — Euro-Info-Centres (EIC) — grew larger and was more active, according to the network's annual report, which appeared in May. In quantitative terms, the network completed its expansion phase, which took the number of EICs to 187, plus 16 regional outposts. The network reacted quickly to events in East Germany, with the decision to set up gradually seven EICs in the new German *Länder* and to extend the activities of the Euro-Info-Centre in Berlin to the city's Eastern sector. Two new EICs have been opened with the help of the local chambers of commerce and industry, one in London, the other in Ioannina, Greece.

In qualitative terms, the services rendered by the EICs to enterprises have been expanded and honed. Thus more than 160 000 questions were handled by the EIC network in the course of last year. The questions asked most frequently by businesses dealt with Community research and development programmes (22 %); industrial policy and the internal market (19 %); customs union and the free movement of goods (7 %); regional policy (7 %) and the right of establishment and freedom to provide services (6 %).

Most of the questions were posed by firms employing fewer than 50 persons; they accounted for some 70 % of the total. Approximately 22 % of the questions were posed, however, by businesses employing fewer than five persons. There was a considerable increase in the number of questions from companies employing more than 500 people; they accounted for nearly 10 % of the total last year.

In their role of intermediaries for SMEs, the EICs have, as their primary task, the dissemination of information to them. But they must also develop activities aimed at arousing the interest of SMEs: talks, round-table talks, participation at fairs, regular mailings of specialized publications and the organization of training programmes. In the areas of promotion and assistance, the EICs have organized tailor-made activities for the businesses located in their region.

A new task for the EICs gradually emerged during the course of last year. It involves both getting to know the SMEs located in their region and making them more widely known and at the same time informing the European Commission of their particular economic environment.

This latest development, which makes the EICs both observation and listening posts, will represent one of the major challenges for 1991.

◆ 'European' funds for equity participation

The Board of Governors of the European Investment Bank (EIB) — the European Community bank — adopted a new financial facility for SMEs on 10 June: funds for equity participation in productive investments. The EIB can now help independent SMEs located in regional development areas, by making available such funds through the banks which already receive EIB loans in favour of SMEs. The system will operate on an experimental basis for two years, and will have an annual ceiling of ECU 15 million.

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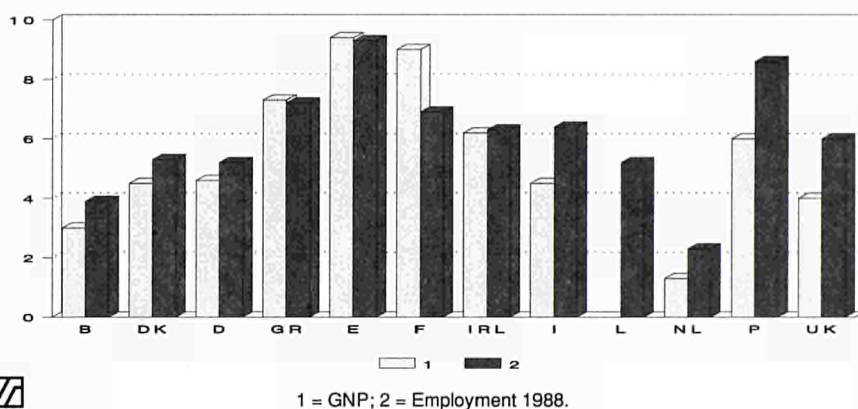


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Importance of tourism for GNP and employment, 1988 (%)



The contribution of tourism to the economy

Tourism occupies a relatively strong position in the economies of the Member States, particularly in the Mediterranean countries.

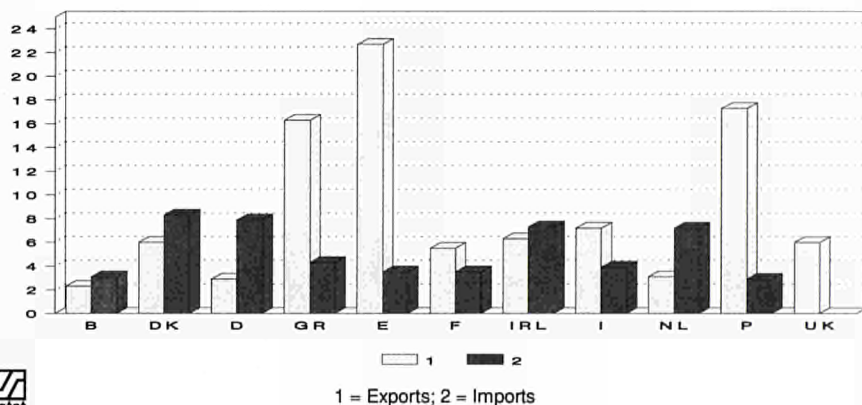
The contribution of this sector to the economy of the Community is approximately 5% of GNP, with two countries far above this average: Spain (9.4%) and France (9.0%).

As a provider of jobs, tourism is even more important: the sector represents 6% of the total number of jobs in the Community, with three countries well above this figure: Spain (9.3%), Portugal (8.6%) and Greece (7.2%).

Tourism in the economies of the Member States, 1988 (%)

	B	DK	D	GR	E	F	IRL	I	L	NL	P	UK
GNP	3.0	4.5	4.6	7.3	9.4	9.0	6.2	4.5	:	1.3	6.0	4.0
Employment	3.9	5.3	5.2	7.2	9.3	6.9	6.3	6.4	5.2	2.3	8.6	6.0

Tourism in trade, 1989 (%)



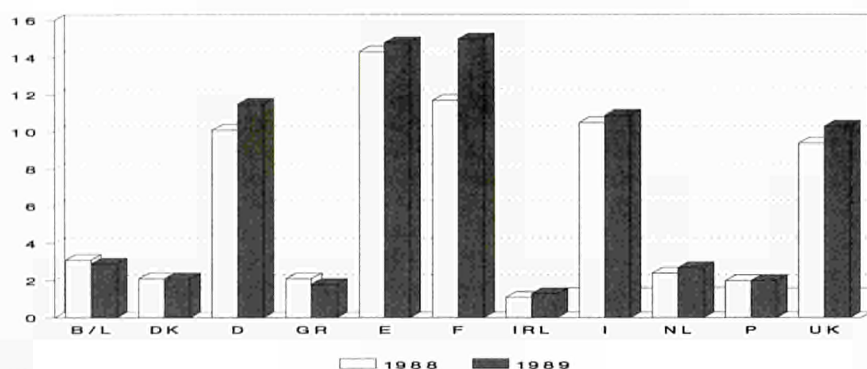
Tourism in international trade

The share of receipts from travel in total exports of goods and services varies considerably from one country to another.

In three countries receipts from tourism are of vital importance: Spain (22.7% of all export receipts are linked to tourism), Portugal (17.3%) and Greece (16.3%).

In Denmark 8.3% of international expenditure goes on tourism, against 2.9% in Portugal.

*Receipts from tourism in the balance of payments,
1988 and 1989 (billion ECU)*



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Receipts

There was an overall increase of 9.5% in receipts from tourism between 1988 and 1989.

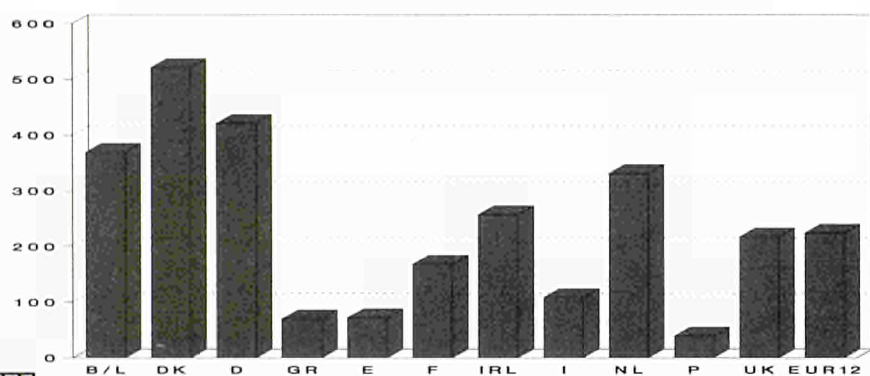
In 1989 this sector generated an income of ECU 14.8 billion for Spain, which was thus able to reduce its total external debt (- 14.1 billion).

In Spain in 1989, 22.6% of total receipts came from tourism; the figure was 17.8% for Greece and 12.9% for Portugal.

Belgium, Luxembourg and the Netherlands are the countries which seem the least dependent on this sector.

1989	B/L	DK	D	GR	E	F	IRL	I	NL	P	UK
Tourism as a % of total receipts	2.0	5.4	3.0	17.8	22.6	5.6	5.9	6.3	2.0	12.9	3.5
Total receipts (billion ECU)	148.1	38.8	384.0	10.1	65.5	265.8	22.2	171.7	133.5	15.5	293.4

Tourist expenditure per inhabitant in 1989 (ECU)
(Expenditure of country A on foreign travel/Total population of A)



EUROSTAT

How much do they spend?

On average Europeans spent ECU 224 per inhabitant in 1989 on international tourism.

This item varied between ECU 39 in Portugal and ECU 529 in Denmark, i.e. a range of 1 to 13.5, while the range of GNP per inhabitant was only 1 to 4.5.

There was an overall increase of 9.1% in expenditure linked to international tourism. In Germany this item represented 8.2% of total expenditure in the balance of payments.

Balance of payments 1989

	B/L	DK	D	GR	E	F	IRL	I	NL	P	UK
Tourism as a % of total expenditure	2.6	6.8	8.2	4.3	3.5	3.6	3.9	3.5	4.7	2.0	4.4
Total expenditure (billion ECU)	143.6	40	337	16.1	79.6	261.7	23.1	179.1	124.6	20	316

Just published

'Tourism in Europe – Trends 1989' is a new one-off publication available in English, French, German and Italian. The statistics quoted in this edition of 'Key figures' are taken from this publication.